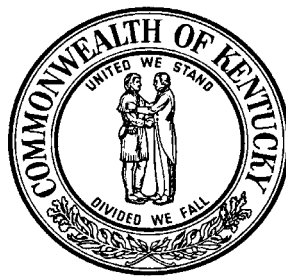


**REPORT OF THE AUDIT OF THE
NICHOLAS COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Larry Tincher, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

The enclosed report prepared by Simon, Underwood & Associates PSC, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood & Associates PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood & Associates PSC evaluated the Nicholas County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
NICHOLAS COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

4020 Taylorsville Road
Louisville, Kentucky 40220
Telephone (502) 456-4860
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NICHOLAS COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

Simon, Underwood & Associates PSC has completed the Nicholas County Fiscal Court audit for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had unrestricted net assets of \$704,239 as of June 30, 2004 in its governmental activities with total net assets of \$4,805,963. The fiscal court had total debt of \$265,016 in its governmental activities. Future principal and interest payments of \$301,250 are needed to meet these obligations.

Report Comment:

- The Fiscal Court Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

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*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary, Finance and Administration Cabinet

Honorable Larry Tincher, Nicholas County Judge/Executive

Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Nicholas County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Nicholas County Senior Citizens Center, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit is based upon the report of the other auditors. Those financial statements reflect 100% of assets and revenues of the discretely presented component unit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Nicholas County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based upon our report and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of June 30, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Larry Tincher, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Schedules are not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nicholas County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 26, 2006 on our consideration of Nicholas County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based upon the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Fiscal Court Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

Simon, Underwood & Associates PSC

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
June 26, 2006

NICHOLAS COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2004

Fiscal Court Members:

Larry Tinch	County Judge/Executive
Daryl Stacy	Magistrate
Steve Hamilton	Magistrate
Billy Dixon	Magistrate
Avery Thornsburg	Magistrate
Jeff Randolph	Magistrate

Other Elected Officials:

Dawn Letcher	County Attorney
Jeff Sidles	Jailer
Douglas Fryman	County Clerk
Sandy Watkins	Circuit Court Clerk
Dick Garrett	Sheriff
Michelle McDonald	Property Valuation Administrator
Roy Gaunce	Coroner

Appointed Personnel:

Wanda Dotson	County Treasurer
Dana Price	Finance Officer/Occupational Tax Collector

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NICHOLAS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

NICHOLAS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		Component Unit
	Governmental Activities	Totals	Nicholas County Senior Citizens Center
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 718,560	\$ 718,560	\$ 19,354
Investments	361,200	361,200	
Accounts Receivable - Homecare			5,000
Total Current Assets	1,079,760	1,079,760	24,354
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	80,823	80,823	
Land and Land Improvements	1,343,968	1,343,968	
Buildings	1,463,859	1,463,859	
Other Equipment	177,943	177,943	
Vehicles and Equipment	304,748	304,748	
Infrastructure Assets - Net of Depreciation	619,878	619,878	
Total Noncurrent Assets	3,991,219	3,991,219	
Total Assets	5,070,979	5,070,979	24,354
LIABILITIES			
Current Liabilities:			
Accounts Payable - Title III/Homecare			3,000
Financing Obligations	38,329	38,329	
Total Current Liabilities	38,329	38,329	3,000
Noncurrent Liabilities:			
Financing Obligations	226,687	226,687	
Total Noncurrent Liabilities	226,687	226,687	
Total Liabilities	265,016	265,016	3,000
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	3,726,203	3,726,203	
Restricted For:			
Debt Service	9,742	9,742	
Grant Projects	2,199	2,199	
Permanent Trust	363,580	363,580	
Unrestricted	704,239	704,239	21,354
Total Net Assets	\$ 4,805,963	\$ 4,805,963	\$ 21,354

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 940,277	\$ 16,797	\$ 862,294	\$ 66,057
Protection to Persons and Property	292,248	14,913	42,210	
General Health and Sanitation	144,671	47,344		
Social Services	82,787			
Recreation and Culture	73,171			
Roads	277,821	7,352	471,062	
Debt Service	42,538			
Capital Projects	27,775			
Total Primary Government	\$ 1,881,288	\$ 86,406	\$ 1,375,566	\$ 66,057
Component Units:				
Nicholas County Senior Citizens Center	\$ 118,356	\$	\$ 114,971	\$
Total Component Units	\$ 118,356	\$ 0	\$ 114,971	\$ 0

General Revenues:

Taxes:

- Real Property Taxes
- Personal Property Taxes
- Motor Vehicle Taxes
- Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Transfer from Fiduciary Trust Fund

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Totals	Component Unit
\$ 4,871	\$ 4,871	\$
(235,125)	(235,125)	
(97,327)	(97,327)	
(82,787)	(82,787)	
(73,171)	(73,171)	
200,593	200,593	
(42,538)	(42,538)	
(27,775)	(27,775)	
\$ (353,259)	(353,259)	\$ 0
		(3,385)
		\$ (3,385)
194,125	194,125	
5,903	5,903	
47,513	47,513	
338,034	338,034	
1,043	1,043	
32,812	32,812	4,969
45,859	45,859	
93,505	93,505	
	0	
758,794	758,794	4,969
405,535	405,535	1,584
4,400,428	4,400,428	19,770
	0	
\$ 4,805,963	\$ 4,805,963	\$ 21,354

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	Special Revenue Funds			
	General Fund	Road Fund	Phase I Tobacco Fund	Mathers Educational Fund
ASSETS				
Cash and Cash Equivalents	\$ 391,238	\$ 157,918	\$ 12,245	\$ 124,610
Investments				
Total Assets	<u>\$ 391,238</u>	<u>\$ 157,918</u>	<u>\$ 12,245</u>	<u>\$ 124,610</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 2,093	\$ 4,884	\$	\$
Permanent Trust				
Unreserved:				
General Fund	389,145			
Special Revenue Funds		153,034	12,245	124,610
Debt Service Fund				
Total Fund Balances	<u>\$ 391,238</u>	<u>\$ 157,918</u>	<u>\$ 12,245</u>	<u>\$ 124,610</u>

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Permanent Fund		
Knox Hospital Trust Fund	Non- Major Funds	Total Governmental Funds
\$ 2,380	\$ 30,169	\$ 718,560
361,200		361,200
<u>\$ 363,580</u>	<u>\$ 30,169</u>	<u>\$ 1,079,760</u>

\$ 363,580	\$ 10,461	\$ 17,438
		363,580
		389,145
	9,966	299,855
	<u>9,742</u>	<u>9,742</u>
<u>\$ 363,580</u>	<u>\$ 30,169</u>	<u>\$ 1,079,760</u>

Reconciliation to Statement of Net Assets:

Total Fund Balances	\$ 1,079,760
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	5,301,209
Accumulated Depreciation	(1,309,990)
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Financing Obligations	<u>(265,016)</u>
Net Assets Of Governmental Activities	<u>\$ 4,805,963</u>

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Special Revenue Funds		
		Road Fund	Phase I Tobacco Fund	Mathers Educational Fund
REVENUES				
Taxes	\$ 585,317	\$	\$	\$
Excess Fees	1,043			
Licenses and Permits	2,726			
Intergovernmental	210,488	916,245	252,232	
Charges for Services	10,687	7,352		
Miscellaneous	26,310	10,942		
Interest	14,305	8,769	7,914	4,730
Total Revenues	850,876	943,308	260,146	4,730
EXPENDITURES				
General Government	393,214	18,000		
Protection to Persons and Property	135,378			
General Health and Sanitation	24,755			
Social Services	20,287			61,825
Recreation and Culture	65,498			
Roads		676,099		
Debt Service	21,376	21,162		
Capital Projects		27,775		
Administration	194,284	133,778	278,882	1,052
Total Expenditures	854,792	876,814	278,882	62,877
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(3,916)	66,494	(18,736)	(58,147)
Other Financing Sources (Uses)				
Financing Obligation Proceeds		96,106		
Transfers From Other Funds	135,776			93,505
Transfers To Other Funds	(154,000)	(88,386)	(12,006)	
Total Other Financing Sources (Uses)	(18,224)	7,720	(12,006)	93,505
Net Change in Fund Balances	(22,140)	74,214	(30,742)	35,358
Fund Balances - Beginning (Restated)	413,378	83,704	42,987	89,252
Fund Balances - Ending	\$ 391,238	\$ 157,918	\$ 12,245	\$ 124,610

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Permanent Fund		
Knox Hospital Trust Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 258	\$ 585,575
		1,043
		2,726
	74,406	1,453,371
	44,169	62,208
	5,283	42,535
8,525	1,617	45,860
<u>8,525</u>	<u>125,733</u>	<u>2,193,318</u>
		411,214
	141,562	276,940
2,357	107,642	134,754
		82,112
		65,498
	25,701	701,800
		42,538
		27,775
	13,854	621,850
<u>2,357</u>	<u>288,759</u>	<u>2,364,481</u>
<u>6,168</u>	<u>(163,026)</u>	<u>(171,163)</u>
		96,106
	154,000	383,281
<u>(7,613)</u>	<u>(27,771)</u>	<u>(289,776)</u>
<u>(7,613)</u>	<u>126,229</u>	<u>189,611</u>
(1,445)	(36,797)	18,448
365,025	66,966	1,061,312
<u>\$ 363,580</u>	<u>\$ 30,169</u>	<u>\$ 1,079,760</u>

The accompanying notes are an integral part of the financial statements.

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**NICHOLAS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

NICHOLAS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change In Fund Balances - Total Governmental Funds	\$	18,448
--	----	--------

Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Capital Outlay		532,524
----------------	--	---------

Depreciation Expense		(86,406)
----------------------	--	----------

The Issuance Of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources To Governmental Funds, While Financing Obligations Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However, Have No Effect On Net Assets.

Financing Obligation Proceeds		(96,106)
-------------------------------	--	----------

Financing Obligation Payments		37,075
-------------------------------	--	--------

Change in Net Assets of Governmental Activities	\$	<u>405,535</u>
---	----	----------------

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NICHOLAS COUNTY
STATEMENT OF FUND NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS

June 30, 2004

NICHOLAS COUNTY
STATEMENT OF FUND NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Mathers Educational Trust Fund
Assets	
Cash and Cash Equivalents	\$ 141,055
Investments	<u>2,053,075</u>
Total Assets	<u>\$ 2,194,130</u>
 Net Assets	
Held in trust for educational and other purposes	 <u><u>\$ 2,194,130</u></u>

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
STATEMENT OF CHANGES IN FUND NET ASSETS -
FIDUCIARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

NICHOLAS COUNTY
STATEMENT OF CHANGES IN FUND NET ASSETS -
FIDUCIARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>Mathers Educational Trust Fund</u>
Additions	
Dividends	\$ 82,980
Interest	576
Gain on Sale of Investments	<u>38,795</u>
Total Additions	122,351
Deletions	
Transfer to Other Funds	93,505
Commissions and Fees	<u>12,430</u>
Total Deletions	<u>105,935</u>
Change In Net Assets Held In Trust	16,416
Total Net Assets - Beginning (Restated)	<u>2,177,714</u>
Total Net Assets - Ending	<u><u>\$ 2,194,130</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the values of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Nicholas County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Discretely Presented Component Units

The component units' column in the government wide financial statements includes the data of the following organization. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize these organizations' separateness from the Fiscal Court's primary government.

Nicholas County Senior Citizens Center – Title III B, C, and Homecare Program

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Nicholas County Senior Citizens Center operates the Title III B, C, and Homecare Programs on behalf of the Nicholas County Fiscal Court. The Fiscal Court has contracted with Bluegrass Area Development District to provide these programs. The Fiscal Court is responsible for appointing the Senior Citizens Center's Director. The Fiscal Court has the ability to significantly influence operations, select the governing authority, and participate in fiscal management and the scope of public service of the Senior Citizens Center. The Senior Citizens Center is financially accountable to the Fiscal Court and cannot be named in any litigation without recourse to the Fiscal Court. This fiscal dependency requires the Fiscal Court to include the Senior Citizens Center as a component unit. The senior Citizens Center is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Senior Citizens Center is presented discretely.

Audited financial statements for the Nicholas County Senior Citizens Center – Title III B, C, and Homecare Program, a discretely presented component unit, may be requested by contacting the Nicholas County Senior Citizens Center, 124 East Main Street, Carlisle, Kentucky, 40311.

C. Nicholas County Elected Officials

Kentucky law provides for election of the below officials from the geographic area constituting Nicholas County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Nicholas County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. The County has no business-type activities. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the financial statements. The County has no proprietary funds.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Mathers Educational Fund - The primary purpose of this fund is to account for the distribution requirements of the Mathers Educational Trust Fund. The primary source of revenue for this fund is the income generated by the principal of the Trust Fund. The Trust Fund requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Phase I Tobacco Fund - The purpose of this fund is to account for the distribution of subsidy resources from the state for qualifying farmers of tobacco funds. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Knox Hospital Trust Fund – This fund was established to promote the general health and welfare of the people of Nicholas County, especially the employment of a health nurse. The Fiscal Court uses the income generated from the principal of the Trust through the General Fund for this purpose.

The primary government also has the following nonmajor funds: Jail Fund, Local Government Economic Assistance Fund, Landfill Fund, Water District Phase 8 Fund, and Debt Service Fund.

Special Revenue Funds:

The Road Fund, Phase I Tobacco Fund, Mathers Educational Fund, Jail Fund, Local Government Economic Assistance Fund, Landfill Fund, and Water District Phase 8 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The County has one debt service fund included as a non-major fund. Debt service funds are used to account for the accumulation of resources for the payment of general long-term debt principal and interest.

Permanent Fund:

The County has one permanent fund, Knox Hospital Trust Fund. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the county's programs.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Fiduciary Fund

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments and can not be used to support the government's own programs. When these assets are held under the terms of a formal trust agreement, pension trust funds, investment trust funds, private-purpose trust funds, and agency funds are used.

The primary government reports the following fiduciary fund:

Mathers Educational Trust Fund – This private-purpose trust fund was established for educational expenses of Nicholas County school age children. The Fiscal Court awards the income generated from the principal of the Trust based upon applications received, less administrative costs.

Presentation of Component Units

The financial statements present the following major discretely presented component unit: Nicholas County Senior Citizens Center – Title III B, C, and Homecare Program.

This component unit is reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as "Component Unit" to emphasize this organization's separateness from the Fiscal Court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings	\$ 50,000	10-100
Building Improvements	\$ 25,000	10-100
Other Equipment	\$ 5,000	2-10
Vehicles and Equipment	\$ 5,000	2-10
Infrastructure	\$ 25,000	5-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by June 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, Nicholas County has no organizations considered related organizations of the Nicholas County Fiscal Court.

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, Nicholas County has no organizations considered jointly governed organizations of the Nicholas County Fiscal Court.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, Nicholas County has no organizations considered joint ventures of the Nicholas County Fiscal Court.

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the component units' deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name. However, as of June 30, 2004, the primary government's collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$295,617 of public funds uninsured and unsecured.

The county's deposits, included in the Mathers Educational Trust Fund and the Knox Hospital Trust Fund, are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Cash and Cash Equivalents	Category			Carrying Amount	Market Value
	1	2	3		
Prime Money Market Fund	\$	\$	\$ 2,380	\$ 2,380	\$ 2,380
U.S. Treasury - Money Market Fund			141,055	141,055	141,055
Totals	\$	\$	\$ 143,435	\$ 143,435	\$ 143,435

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments

The county's investments, included in the Mathers Educational Trust Fund and the Knox Hospital Trust Fund, are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
Equities in Mutual funds	\$	\$	\$ 447,690	\$ 447,690	\$ 457,951
Equities in common stocks			228,903	228,903	250,630
Equities in health care corps			8,535	8,535	8,315
Fixed Income in Mutual funds			1,729,148	1,729,148	1,784,405
Totals	<u>\$</u>	<u>\$</u>	<u>\$ 2,414,276</u>	<u>\$ 2,414,276</u>	<u>\$ 2,501,301</u>

The following chart shows current cash and investments for the governmental and fiduciary activities. Discretely presented component units are not included in this chart.

Cash and Investment Summary

As reported in the Statement of Net Assets and Statement of Fiduciary Net Assets

	<u>Current Cash And Investments</u>
Governmental activities	\$ 363,580
Fiduciary activities	<u>2,194,130</u>
	<u>\$ 2,557,710</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,343,968	\$	\$	\$ 1,343,968
Construction In Progress		80,823		80,823
Total Capital Assets Not Being Depreciated	1,343,968	80,823		1,424,791
Capital Assets, Being Depreciated:				
Buildings	1,712,801			1,712,801
Other Equipment	784,000			784,000
Vehicles and Equipment	641,710	106,106		747,816
Infrastructure	286,206	345,595		631,801
Total Capital Assets Being Depreciated	3,424,717	451,701		3,876,418
Less Accumulated Depreciation For:				
Buildings	(225,634)	(23,308)		(248,942)
Other Equipment	(600,457)	(5,600)		(606,057)
Vehicles and Equipment	(392,914)	(50,154)		(443,068)
Infrastructure	(4,579)	(7,344)		(11,923)
Total Accumulated Depreciation	(1,223,584)	(86,406)		(1,309,990)
Total Capital Assets, Being Depreciated, Net	2,201,133	365,295		2,566,428
Governmental Activities Capital Assets, Net	\$ 3,545,101	\$ 446,118	\$ 0	\$ 3,991,219

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 6,947
Protection to Persons and Property	25,308
General Health and Sanitation	9,917
Social Services	675
Recreation and Culture	7,673
Roads, Including Depreciation of General Infrastructure Assets	35,886
Total Depreciation Expense - Governmental Activities	\$ 86,406

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Financing Obligations

A. Courthouse Renovation

Nicholas County Fiscal Court entered into a lease agreement for \$291,000 with the Kentucky Association of Counties Leasing Trust Program, for courthouse renovation, on September 24, 1997. Payments are due monthly and are calculated annually based on the outstanding principal, variable interest rate, and associated fees. The lease is to be paid in full on October 1, 2012. The outstanding principal as of June 30, 2004 was \$187,074. The following indicates scheduled debt service requirements (principal and interest only) for future periods through the end of the lease:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 5,261	\$ 19,651
2006	6,105	20,296
2007	5,191	21,218
2008	4,478	22,047
2009	3,600	22,910
2010-2013	<u>5,175</u>	<u>80,952</u>
Totals	<u>\$ 29,810</u>	<u>\$ 187,074</u>

B. Dump Trucks

Nicholas County Fiscal Court entered into a lease agreement for \$96,106 with the Kentucky Association of Counties Leasing Trust Program, for two 2003 GMC dump trucks, on August 14, 2003. Payments are due monthly and are calculated annually based on the outstanding principal, variable interest rate, and associated fees. The lease is to be paid in full on August 20, 2008. The outstanding principal as of June 30, 2004 was \$77,942. The following indicates scheduled debt service requirements (principal and interest only) for future periods through the end of the lease:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 2,725	\$ 18,678
2006	1,995	19,206
2007	1,240	19,750
2008	<u>464</u>	<u>20,308</u>
Totals	<u>\$ 6,424</u>	<u>\$ 77,942</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Financing Obligations (Continued)

C. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 205,985	\$ 96,106	\$ 37,075	\$ 265,016	\$ 38,329
Governmental Activities					
Long-term Liabilities	<u>\$ 205,985</u>	<u>\$ 96,106</u>	<u>\$ 37,075</u>	<u>\$ 265,016</u>	<u>\$ 38,329</u>

Note 5. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5% of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34%.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 6. Insurance

For the fiscal year ended June 30, 2004, Nicholas County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 7. Landfill Closure and Postclosure Costs

The Nicholas County Landfill was closed in September 1993. The Fiscal Court must comply with established state and federal landfill closure and postclosure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. Estimated postclosure care costs total \$72,500 as of June 30, 2004, or \$8,000 per year. During the fiscal year ending June 30, 2004, the County made no expenditures on postclosure costs. The County Judge/Executive and two magistrates are performing the process of groundwater monitoring in-house. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that postclosure costs will be paid out of the General Fund to the extent that funds are available with any excess costs to be funded using long-term borrowings.

Note 8. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities is an increase of 3,704,862 due to capital assets and long-term debt previously not reported. The beginning fund balance for the General Fund has also been restated by \$721 for receipts previously omitted in error.

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NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 531,000	\$ 556,466	\$ 585,317	\$ 28,851
Excess Fees	150	150	1,043	893
Licenses and Permits	3,200	3,200	2,726	(474)
Intergovernmental Revenue	61,082	128,558	210,488	81,930
Charges for Services	13,876	21,001	10,687	(10,314)
Miscellaneous	16,666	23,151	26,310	3,159
Interest	24,000	24,000	14,305	(9,695)
Total Revenues	649,974	756,526	850,876	94,350
EXPENDITURES				
General Government	303,318	420,312	393,214	27,098
Protection to Persons and Property	84,274	131,716	135,378	(3,662)
General Health and Sanitation	15,492	15,492	24,755	(9,263)
Social Services	21,850	20,287	20,287	
Recreation and Culture	56,000	65,498	65,498	
Debt Service	65,000	22,500	21,376	1,124
Administration	184,349	198,168	194,284	3,884
Total Expenditures	730,283	873,973	854,792	19,181
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(80,309)	(117,447)	(3,916)	113,531
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	40,000	40,000		(40,000)
Transfers From Other Funds	114,386	114,386	135,776	21,390
Transfers To Other Funds	(224,077)	(224,077)	(154,000)	70,077
Total Other Financing Sources (Uses)	(69,691)	(69,691)	(18,224)	51,467
Net Changes in Fund Balance	(150,000)	(187,138)	(22,140)	164,998
Fund Balance - Beginning	150,000	187,138	413,378	226,240
Fund Balance - Ending	\$ 0	\$ 0	\$ 391,238	\$ 391,238

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 630,493	\$ 882,904	\$ 916,245	\$ 33,341
Charges for Services	5,000	5,000	7,352	2,352
Miscellaneous	500	8,847	10,942	2,095
Interest	14,500	14,500	8,769	(5,731)
Total Revenues	650,493	911,251	943,308	32,057
EXPENDITURES				
General Government	18,000	18,000	18,000	
Roads	414,853	571,765	579,993	(8,228)
Debt Service	18,000	28,000	21,162	6,838
Capital Projects	36,500	36,500	27,775	8,725
Administration	131,754	244,803	133,778	111,025
Total Expenditures	619,107	899,068	780,708	118,360
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	31,386	12,183	162,600	150,417
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(88,386)	(88,386)	(88,386)	
Total Other Financing Sources (Uses)	(88,386)	(88,386)	(88,386)	
Net Changes in Fund Balance	(57,000)	(76,203)	74,214	150,417
Fund Balance - Beginning	57,000	76,203	83,704	7,501
Fund Balance - Ending	\$ 0	\$ 0	\$ 157,918	\$ 157,918

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

PHASE I TOBACCO FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 340,000	\$ 490,000	\$ 252,232	\$ (237,768)
Interest	3,000	3,000	7,914	4,914
Total Revenues	343,000	493,000	260,146	(232,854)
EXPENDITURES				
Administration	348,000	535,986	278,882	257,104
Total Expenditures	348,000	535,986	278,882	257,104
Excess (Deficiency) of Revenues Over Expenditures	(5,000)	(42,986)	(18,736)	24,250
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(12,006)	(12,006)
Total Other Financing Sources (Uses)			(12,006)	(12,006)
Net Changes in Fund Balance	(5,000)	(42,986)	(30,742)	12,244
Fund Balance - Beginning	5,000	42,986	42,987	1
Fund Balance - Ending	\$ 0	\$ 0	\$ 12,245	\$ 12,245

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

MATHERS EDUCATIONAL FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ 3,000	\$ 3,000	\$ 4,730	\$ 1,730
Total Revenues	<u>3,000</u>	<u>3,000</u>	<u>4,730</u>	<u>1,730</u>
EXPENDITURES				
Social Services	147,200	147,200	61,825	85,375
Administration	40,800	40,800	1,052	39,748
Total Expenditures	<u>188,000</u>	<u>188,000</u>	<u>62,877</u>	<u>125,123</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(185,000)</u>	<u>(185,000)</u>	<u>(58,147)</u>	<u>126,853</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	100,000	100,000	93,505	(6,495)
Total Other Financing Sources (Uses)	<u>100,000</u>	<u>100,000</u>	<u>93,505</u>	<u>(6,495)</u>
Net Changes in Fund Balances	(85,000)	(85,000)	35,358	120,358
Fund Balances - Beginning	<u>85,000</u>	<u>85,000</u>	<u>89,252</u>	<u>4,252</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 124,610</u>	<u>\$ 124,610</u>

NICHOLAS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by June 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Road Fund

Total Expenditures - Budgetary Basis	\$ 780,708
Plus: expenditure for purchase of equipment	<u>96,106</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 876,814</u></u>
Other Financing Sources (Uses)	
- Budgetary Basis	\$ (88,386)
Plus: proceeds from financing obligation	<u>96,106</u>
Total Other Financing Sources (Uses)	
- Modified Cash Basis	<u><u>\$ 7,720</u></u>

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NICHOLAS COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2004

NICHOLAS COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Special Revenue Funds					Total Non-Major Governmental Funds
	Jail Fund	Local Government Economic Assistance Fund	Landfill Fund	Water District Phase 8 Fund	Debt Service Fund	
ASSETS						
Cash and Cash Equivalents	\$ 1,486	\$ 12,691	\$ 6,250	\$	\$ 9,742	\$ 30,169
Total Assets	<u>\$ 1,486</u>	<u>\$ 12,691</u>	<u>\$ 6,250</u>	<u>\$ 0</u>	<u>\$ 9,742</u>	<u>\$ 30,169</u>
FUND BALANCES						
Reserved for:						
Encumbrances	\$ 10,461	\$	\$			\$ 10,461
Unreserved:						
Special Revenue Fund	(8,975)	12,691	6,250			9,966
Debt Service Fund					9,742	9,742
Total Fund Balances	<u>\$ 1,486</u>	<u>\$ 12,691</u>	<u>\$ 6,250</u>	<u>\$ 0</u>	<u>\$ 9,742</u>	<u>\$ 30,169</u>

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NICHOLAS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

NICHOLAS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Special Revenue Funds			
	Local			Water
	Jail	Government	Landfill	District
	Fund	Economic	Fund	Phase 8
	Fund	Assistance	Fund	Fund
	Fund	Fund	Fund	Fund
REVENUES				
Taxes	\$	\$	\$	\$
Intergovernmental	31,165	24,991		18,250
Charges for Services	2,108		42,061	
Miscellaneous			5,283	
Interest	265	484	238	
Total Revenues	33,538	25,475	47,582	18,250
EXPENDITURES				
Protection to Persons and Property	141,562			
General Health and Sanitation			89,392	18,250
Roads		25,701		
Administration	7,880		5,974	
Total Expenditures	149,442	25,701	95,366	18,250
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(115,904)	(226)	(47,784)	
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds				
Transfers From Other Funds	109,000		45,000	
Total Other Financing Sources (Uses)	109,000		45,000	
Net Changes in Fund Balances	(6,904)	(226)	(2,784)	
Fund Balances - Beginning	8,390	12,917	9,034	
Fund Balances - Ending	\$ 1,486	\$ 12,691	\$ 6,250	\$ 0

NICHOLAS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Debt Service Fund	Total Non-Major Governmental Funds
\$ 258	\$ 258
	74,406
	44,169
	5,283
630	1,617
888	125,733
	141,562
	107,642
	25,701
	13,854
	288,759
888	(163,026)
(27,771)	(27,771)
	154,000
(27,771)	126,229
(26,883)	(36,797)
36,625	66,966
\$ 9,742	\$ 30,169

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**NICHOLAS COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2004

**NICHOLAS COUNTY
COMMENT AND RECOMENDATION**

Fiscal Year Ended June 30, 2004

NONCOMPLIANCES

The Fiscal Court Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

On June 30, 2004, \$295,617 of the county's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance equals or exceeds the amount of public funds on deposit at all times. We recommend the County require depository institutions to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Larry Tincher's Response:

This matter has been resolved.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

Honorable Larry Tincher, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 26, 2006. Nicholas County, Kentucky prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nicholas County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nicholas County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of material noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Fiscal Court Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

This report is intended solely for the information and use of Nicholas County Fiscal Court and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Simon, Underwood & Associates PSC

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
June 26, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

NICHOLAS COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**


APPENDIX A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
NICHOLAS COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Nicholas County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Name
County Judge/Executive


Name
County Treasurer